Oil and Gas in Utah: Boom, Bust, & Beyond

As oil and gas production expanded, so did employment in the industry. What does the future hold for the oil and gas industry in Utah?

Utah's oil and gas industry occupies an interesting position within the country's industry as a whole. In 2007, Utah ranked 16th in total energy production, 13th in crude oil production, and 8th in natural gas production among the fifty states. However impressive these ranking may appear, Utah only produces 1.5 percent of the total energy, 1 percent of the total crude oil, and 1.9 percent of the total natural gas in the United States. While the quantities of oil and gas produced in Utah are relatively small when viewed from the national perspective, the industry is regionally important.

In Duchesne and Uintah counties, employment in the oil and gas industry accounts for between 15 to 20 percent of total employment. Moreover, the oil and gas produced is important to the neighboring states of Colorado, Idaho, Nevada, and Wyoming. Utah produced a total of 1,087 trillion BTUs of energy and consumed only 806 trillion BTUs in 2007, which left 25 percent of total energy output available for sale to these nearby states. For eastern Utah and the surrounding states, Utah's oil and gas industry is of considerable significance.

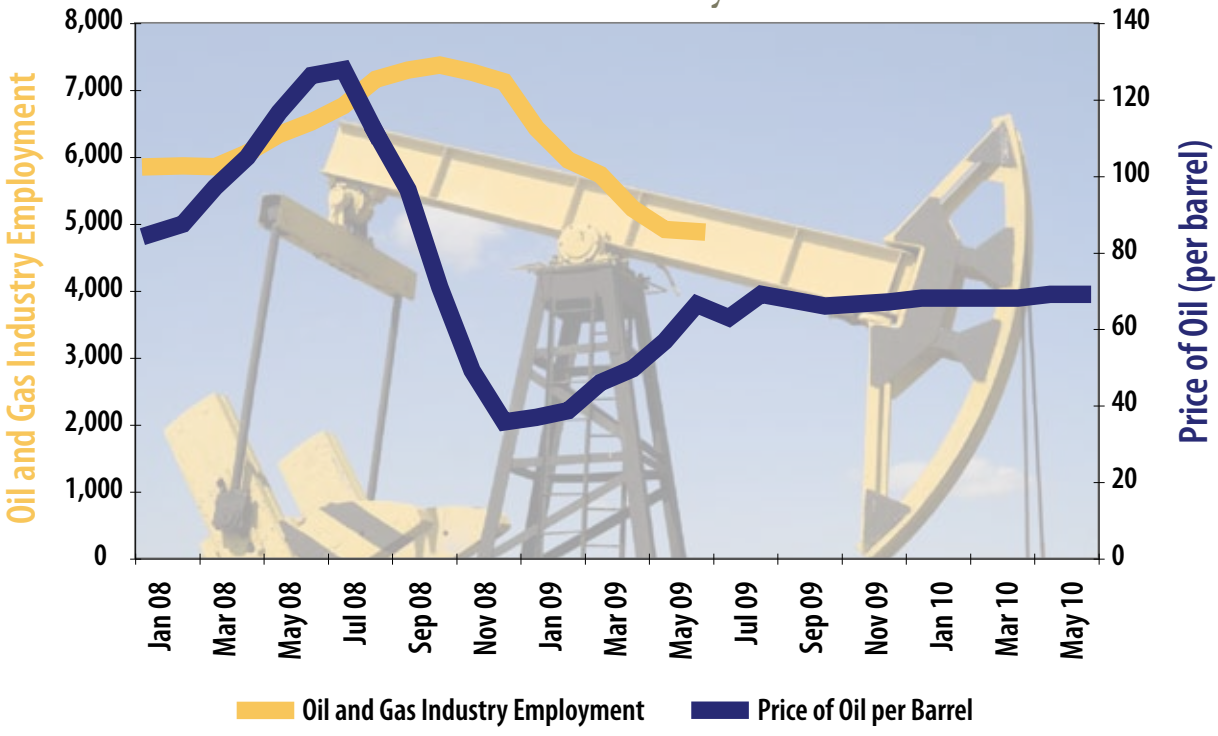
The oil and gas industry can be volatile, exhibiting alternating periods of booms and busts. From 2000 to the end of 2008, the industry in Utah experienced a nearly continuous boom. The steady rise in both oil and natural gas prices stimulated expansion in the industry, but what explains the rise in prices? Four main factors operating in concert brought about the price increase. First, international demand for oil was growing rapidly, particularly in China, India, and the Middle East. Second, world production lagged behind the higher level of demand. Third, a relatively weak U.S. dollar meant that each dollar purchased a smaller quantity of foreign oil. And fourth, general disappointment in the performance of the stock market led investors to shift their funds to commodities, which includes oil. Together these factors raised oil prices and stimulated domestic oil and gas production.

As oil and gas production expanded, so did employment in the industry. Total oil and gas employment in Utah increased by more than 25 percent in the first 10 months of 2008 reaching a peak of 7,367 in October (see graphs).

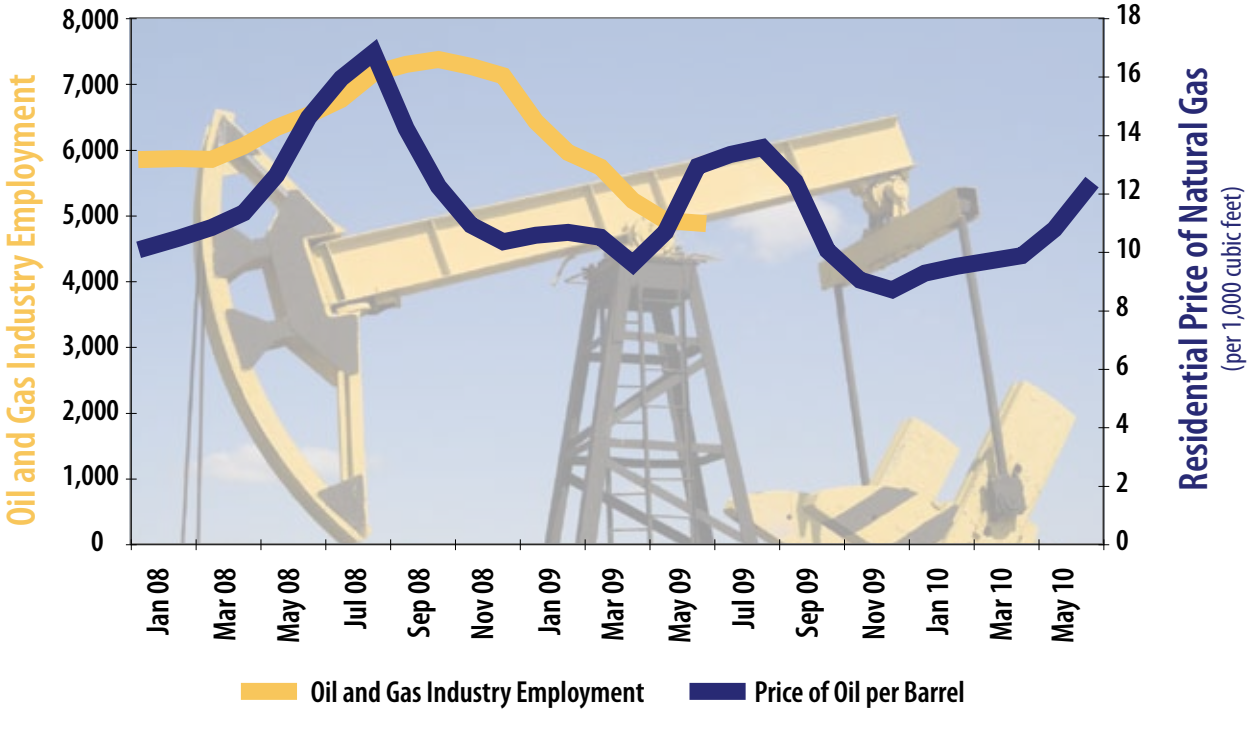
In the summer of 2008 the prices of oil and natural gas began to fall, which would signal a reversal in the oil and gas industry's fortunes. Why did prices fall? The full impact of the current recession was only beginning to be felt in the second half of 2008. Subsequently, demand for oil in the U.S. alone dropped by 10 percent and worldwide demand softened amidst the global recession. The dollar also began to strengthen in the middle of 2008, implying a lower dollar price for foreign oil. The dramatic drop in oil and gas prices led to an equally dramatic drop in Utah's employment. In the eight months following October 2008, employment in the Utah oil and gas industry fell by more than 33 percent to 5,850 in June 2009 (see graphs).

What does the future hold for the oil and gas industry in Utah? While booms and busts are the nature of the industry, there might be reason for optimism concerning the near future. The recent weakening of the dollar and rising world demand has started to push up oil and natural gas prices. The decline in oil and gas employment slowed down from April to June of this year indicating, perhaps, the bottom of the trough. Furthermore, the Energy Information Administration short-term projections for oil and natural gas prices show upward trends through June of 2010 (see graphs). Taken as a whole, the indicators suggest that employment in Utah's oil and gas industry should stabilize and could begin to rise again before the end of 2009.

Oil Prices and Employment in the Oil and Gas Industry in Utah



Natural Gas Prices and Employment in the Oil and Gas Industry in Utah



Sources: Utah Department of Workforce Services; Energy Information Administration.